Lafayette Redevelopment Agency Staff Report

For:	Redevelopment Agency Board
By:	Glenda Warmoth Niroop Srivatsa
Date Written:	July 20, 2009
Meeting Date:	July 27, 2009
Subject:	Eden Housing Inc.'s request to amend the loan agreement to include an additional $500,000 dedication of redevelopment agency funds to bridge the funding gap for the senior housing project located at 3246 Mt. Diablo Blvd.

Purpose

Consider Eden Housing Inc.'s request to commit an additional $500,000 of redevelopment housing set aside funds towards the Eden Senior Housing Project.

Background

On February 28, 2005, the Senior Housing Task Force was created to help the City Council meet its goal of providing senior housing in Lafayette. The task force, consisting of two Councilmembers (Anduri, Federighi), two Planning Commissioners (Lovitt, Chastain) and three Senior Services Commissioners (Fuchs, Hahn, Miller) met regularly for the next four years.

In January 2007, based on extensive deliberations after the interviews with the various developers who responded to the Request For Proposals, the Senior Housing Task Force selected, and the City Council approved, the nonprofit Eden Housing Inc. as the developer for this project. After exhaustive research, Eden engaged in negotiations with the property owner of 3426 Mt. Diablo Blvd. - the Lemos Property. Once a purchase agreement was executed, Eden submitted a formal development application (L02-08) to construct an independent living senior housing project. The Lafayette Planning Commission considered and conditionally approved L02-08 to establish a 46 unit senior housing development in November 2008.

The purpose of this memorandum is to provide the Agency Board with background on the financing of the project and explain why the dedication of additional funds is necessary.

7B

Project Financing and Need for Additional Funds

Eden Housing Inc. and the affordable housing industry like most aspect of today's economy are feeling the affects of the economic downturn. Tax credit investors are only able to offer 72 cents to the dollar which is a decline from the estimated 94 cents on the dollar when Eden began budgeting for the project back in 2007. The estimated tax credit contribution is now $6,186,246 instead of the projected $7,113,287. The loss of tax credits has created a funding gap for Eden Housing's senior development project in Lafayette.

The funding gap created by current economic climate was brought to the City's attention last winter. At that time Eden anticipated receiving development grants to cover the short fall of $503,949.32.

Eden pursued a waiver of development impact fees to cover the funding gap with the City, requesting a waiver totaling $500,000 which covered all city fees. The Senior Housing Task force felt that it could not support a waiver of the $150,000 Lamorinda Transportation Fee because it required mutual support from other jurisdictions. Eden agreed that it would try to make up the shortfall in project savings. The Senior Housing Task Force reviewed this proposal and recommended dedicating an additional $350,000 to cover the project gap with the funding coming from the Redevelopment Agency's 20% set aside funds rather than a waiver of impact fees.

Another reason for this funding request is that Eden has applied for tax credits from the California Tax Credit Allocation Committee (TCAC) which administers the low income housing tax credit authorized to encourage private investment in affordable rental housing for households meeting certain income requirements. The TCAC application includes a tie breaker used when competing project have identical scores. The 2009 TCAC tie breaker calculation rates projects on a percentage scale awarding a higher value to projects with a higher percentage of committed funds. Committed funds are the monies dedicated to the project from the city, county and permanent lenders.

Eden's financial consultant has reviewed the tax credit application and advised Eden to increase the percentage of committed funds to development costs finding that applications with a percentage at or above 50 percent will receive a higher score from the TCAC committee. To achieve this goal, Eden approached their general contractor and re-analyzed the construction cost and found ways to reduce the overhead thereby reducing the overall development costs. In addition they are requesting the dedication of this additional $500,000 from the Lafayette Redevelopment Agency. This amount would be used to cover the development fees for the project, successfully bridge the funding gap and make the tax credit application more competitive by achieving percentage above 50%. Without this dedication of funds, the project would have a rating of 47%.

Proportionality Requirements

Redevelopment Law requires that local jurisdictions spend their 20% tax increment funds on affordable housing with the proviso that funds not all be spent on senior affordable housing (housing that is often less controversial than regular multifamily housing). The proportionality

test requires jurisdictions to spend no more on affordable housing for seniors than the percentage of the lower income population that seniors represent. Specifically, the law states that each RDA, over the life of its implementation plan for a project area, expend 20% funds to assist housing available to all age groups at least in the same proportion as the under-age-65 population bears to the total low-income population of the community as reported in the most recent federal census.

What this means is, if seniors represent 10% of the lower income population in a particular jurisdiction, then that jurisdiction cannot spend more than 10% of its redevelopment housing funds on senior housing over the ten-year life of the implementation plan. Based on current statistics available through the US Census Bureau and the Housing and Urban Development Department, the amount of redevelopment money Lafayette can apportion to senior housing is approximately 44%:

Income Category	Elderly Population	Total Population	Percent Elderly
<50% MFI (Very Low Income)	336	733	45.8%
50-80% of MFI (Low-Income)	273	651	41.9%
TOTAL	*609*	*1,384*	*44.0%*

Based on this table, there are a total of 609 "elderly" households of lower income, as defined in the HUD special tabulations of Census data. The total number of lower-income households is 1,384; this means that seniors represent 44.0% of the lower-income household population.

Further, State law says that a redevelopment agency that has deposited in the Low and Moderate Income Housing Fund over the first five years of the period of an implementation plan an aggregate that is less than two million dollars ($2,000,000) shall have an extra five years to meet the proportionality requirements. This means that Lafayette could potentially have an additional five years to ensure the completion of non-senior housing, aggregated over the implementation plan period (for a total of 15 years).

To date, the Lafayette Redevelopment Agency has committed $3 million to Eden Housing Inc. and its Senior Housing Project: $2.2 million in direct Redevelopment 20% tax increment funds, and an advance for the in-lieu fee to be provided by The Woodbury project in the amount of $800,000. As of July 20, 2009 Eden has used $2,800,000 of those funds to cover predevelopment expenses related to land acquisition, architectural and engineer services, legal fees, etc.

Based on the proportionality requirement, the City can spend the $2.7 million in Agency funds (the original $2.2 million approved in 20% funds, plus the current request of $500,000; the $800,000 from The Woodbury project does not need to comply with the proportionality test),

as long as it has spent approximately $3.44 million on other housing by the end of the implementation plan, plus five years, or about 2020.

The following table is a summary of the current funding sources for Eden's Project:

Source of Funds	Amount
California Community Reinvestment Corporation (permanent Lender)	$698,000
Lafayette Redevelopment Agency	$3,000,000
Contra Costa County -CDBG	$1,400,000
Contra Costa County -Home	$1,600,000
TCAC ARRA Gap Loan	$1,772,036
LP Investor Capital	$10,632,214
Total Permanent Funds	**$19,102,249**

Summary

Eden Housing Inc. has requested a dedication of an additional $500,000 towards the approved senior housing development project. As recommended by the Senior Housing Task Force these funds can come from the Redevelopment Agency 20% set aside funds which has enough projected revenue to fund this request. The grant of additional redevelopment money would successfully bridge the funding gap by covering the development fees for the project and would enhance the tax credit application by achieving a percentage above 50%. As such, staff recommends approval of the request.

Recommendation

Approve the request and direct staff to draft a modified loan agreement increasing the Agency's contribution to the Eden senior housing project by $500,000 for consideration at the August 10, 2009 agenda.

Attachments

1. Written Request for dedication of funds from Eden Housing Inc.
2. Project Performa provided by Eden Housing Inc.
3. Written Request for fee waiver from Eden Housing Inc.

EDEN
HOUSING

22645 Grand Street
Hayward, CA 94541

510.582.1460 Phone
510.582.6523 Fax

www.edenhousing.org

July 20, 2009

Niroop Srivatsa
City of Lafayette
3675 Mt. Diablo Blvd
Lafayette, CA 94549

Re: Lafayette Senior Housing

Dear Niroop,

Eden is providing this letter detailing the current status of our construction and permanent funding sources for the Lafayette Senior Housing development at 3426 Mt. Diablo Blvd. The Tax Credit application is based upon these funding sources. The construction and permanent costs are fully funded with these committed sources of funds. Consequently, we do not anticipate any funding gap if the City approves the additional funding request and TCAC awards the tax credits to the project.

In November 2008, Eden requested a fee waiver $503,949.32 to cover an anticipated funding gap at that time. After this request was made, a decision was made not to include the Lamorinda Transportation fee in the waiver request and therefore the request was verbally reduced to $350,000. Eden Housing expected that it would be able find sufficient project savings to cover the $150,000 gap. The Senior Housing Task Force agreed to recommend providing gap funding in the amount of $350,000. However, rather than a fee waiver, the Senior Housing Task Force agreed to recommend that the Redevelopment Agency of the City of Lafayette to provide an equivalent amount of funding necessary to satisfy the gap and require the payment of all applicable fees.

Subsequently, project cost estimate was refined culminating in the projected hard and soft costs as shown in the attached proforma.

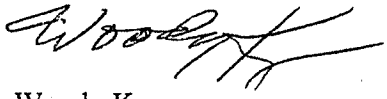
The second, and now the controlling reason for the additional funding request to the City of Lafayette was to maximize our tie breaker score in the tax credit application. The tax credit application is extremely competitive. Only projects that earn perfect scores will receive a funding award. In the current tax credit round there are 20 projects competing for funds in the same region as Lafayette and only 3 projects are expected to be funded. The tie breaker calculation employed by TCAC measures the total committed permanent sources divided by the total development costs (excluding the developer fee and land costs). The projects with the highest percentage of committed funds will be awarded the available credits. Eden's financial consultant advised that in order to be competitive, the tie breaker score needed to exceed 50%. The original tie breaker score was 47.65%. By securing the additional City funds and by working with the general contractor to lower the anticipated construction costs, we brought the tie breaker up to 50.05%. While we are not assured to receive the award, we strongly believe that we have maximized our chances.

Eden Housing does not discriminate based on race, color, religion, sex, handicap, familial status, national origin, or any other arbitrary basis. TDD/TTY 1.800.735.2922

Attachment # 1

The additional $500,000 in funding would not be paid until the construction closing at the start of construction. If we receive the tax credit award, the construction closing would take place in February 2010.

Sincerely,



Woody Karp
Senior Project Developer

Eden - Lafayette Senior — 46 units — 698,000

SOURCES OF FUNDS	Permanent Amount	Construction Period		
First Mortgage	698,000		7.25%	20 years
Contra Costa County CDBG	1,400,000	1,400,000		
Contra Costa County HOME	1,600,000	1,600,000		
HCD - Infill Grant Program	0			
City of Lafayette	3,000,000	3,000,000		
RDA Loan	500,000	500,000	needs to be committed by 8/17	
TCAP Gap Loan	1,772,036	1,772,036	at 12 cents	
GP Equity	0			
Investor Capital Contributions	10,632,214	531,611	$0.7270	
Deferred Developer Fee	0		net fee upfront:	1,400,000
TOTAL PERMANENT SOURCES	19,602,249	8,803,646		
Construction loan		9,510,923	17 mo +5, .5 out	6.00%
		18,314,569	**Total Construction Sources**	

USES OF FUNDS	COST	BASIS FOR 9% CREDIT	Construction Period Costs	
ACQUISITION				
Total Land Cost or Value	3,600,000			
Site Maintenance	0			
Demolition	31,000			
Title and Legal	15,000	0		
Total Acquisition Cost	3,646,000		3,646,000	
REHABILITATION				
Site Work				
Structures				
General Requirements				
Contractor Overhead				
Contractor Profit				
Total Rehabilitation Cost	0		0	
NEW CONSTRUCTION				
Off Site Work	174,490		174,490	
Site Work and Utilities	969,199	969,199	969,199	
Structures	7,129,082	7,129,082	7,129,082	
Photovoltaics and Solar Hot Water	255,261	255,261	255,261	
General Requirements	565,275	565,275	565,275	
Contractor Overhead	246,625	246,625	246,625	
Contractor Profit	246,625	246,625	246,625	
Contractor Bond and Insurance	130,342	130,342	130,342	
Total New Construction Costs	9,716,899	9,542,409		
ARCHITECTURAL FEES				
Design	668,120	668,120		
Supervision	167,030	167,030		
Total Architectural Costs	835,150	835,150	835,150	
Survey/Engineering/testing/const mgmt+cost estimator	245,000	245,000	245,000	
CONSTR. INTEREST & FEES				
Const. Loan Interest (Conventional)	641,987	404,214		237,773
Predevelopment Interest	15,000	15,000		
Origination Fee @ .75%	71,332	71,332		
Bank const inspections, other costs	30,000	30,000		
Contractor's Bond Premium	0	0		
Taxes	103,219	103,219		
Insurance	78,625	78,625		
Title and Recording	30,000	30,000		
Total Construction Interest and Fees	970,163	732,390	970,163	
PERMANENT FINANCING				
Perm Loan fees	6,980			
Perm Loan Legal	10,000			
Title- Perm closings	15,000			
Total Permanent Financing Costs	31,980			
LEGAL FEES				
Lender Legal	20,000	20,000		
Other - Owner Legal	20,000	20,000		
Total Attorney Costs	40,000	40,000	40,000	
RESERVES				
Operating Reserves	86,700			put at 3 months fc
Services reserve	100,000			
Reserve for Partnership managament fee and issuer monitoring fee	0			
Total Reserve Costs	186,700			
Total Appraisal Costs	10,000	10,000	10,000	
Total Construction Contingency Costs	485,845	485,845	485,845	
OTHER				
Tax Credit App./Alloc./Monitoring fees	79,518		79,518	
Environmental/soils	0	0	0	
Site Security	25,000	25,000	25,000	
Impact Fees	1,188,811	1,188,811	1,188,811	1,706,632
Permit Processing fees	517,821	517,821	517,821	
Marketing	46,800		46,800	
Market Study	15,000		15,000	
Furnishings	60,000	60,000	60,000	
Prevailing Wage Monitoring	15,000	15,000	15,000	
Other - soft cost contingency	86,562	86,562	86,562	
Total Other Costs	2,034,512	1,893,194		
Total Project Cost	18,202,249	13,783,988	17,983,569	
DEVELOPER COSTS				
Developer Overhead/Profit	1,400,000	1,400,000	250,000	
Consultant/Processing Agent		0	0	
Project Administration				
Other				
Total Developer Costs	1,400,000	1,400,000		
TOTAL PROJECT COST	19,602,249	15,183,988	18,233,569	
Syndication Costs				
Legal - Syndication/Org	46,000		46,000	
Accountant	22,000			
Consultant - Syndication	35,000		35,000	
Total Syndication Costs	103,000			
TOTAL PROJECT COSTS INCL. SYNDICATION	19,705,249	15,183,988	18,314,569	

Attachment # 2

CASH FLOW ANALYSIS

Contra Costa County

INCOME Unit Size	# of Units	Monthly Rent Charged	Total Monthly	Total Annual	Utility Allowance	Gross Rents	Total Annual Gross Rents
1 BR 30% AMI	4	463	1,852	22,224	39	502	2,008
1 BR 40% AMI	15	630	9,450	113,400	39	669	10,035
1 BR 50% AMI	25	797	19,925	239,100	39	836	20,900
1 BR 60% AMI	0	965	0	0	39	1,004	0
2 BR 30% AMI	1	549	549	6,588	54	603	603
Manager - 2bedroom	1	0	0	0			0
Totals	46		31,776	381,312			
Laundry Income		7		3,864			
Gross Residential Income				385,176			
Vacancy Reserve	5.00%			-19,259			
EGI				365,917			
Operating expenses	450 pum		5,400	248,400		262,200	262200
Services	25 pum		300	13,800		5,700	
						24,000	
						-10,200	
Replacement Reserve	400 per unit			18,400			
NET OPERATING INCOME				85,317			
Debt Service				66,202	65,629		
Net Cash Flow				19,115			

CASH FLOW OVER TIME

	Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Residential income	2.50%	381,312	390,845	400,616	410,631	420,897	431,420	442,205	453,260	464,592	476,206	488,112	500,314	512,822	525,643	538,784
Laundry/misc income		3,864	3,961	4,060	4,161	4,265	4,372	4,481	4,593	4,708	4,826	4,946	5,070	5,197	5,327	5,460
Less Vacancy (5%)		-19,259	-19,740	-20,234	-20,740	-21,258	-21,790	-22,334	-22,893	-23,465	-24,052	-24,653	-25,269	-25,901	-26,548	-27,212
Effective Gross Income (EGI)		365,917	375,065	384,442	394,053	403,904	414,002	424,352	434,961	445,835	456,980	468,405	480,115	492,118	504,421	517,031
Less Annual Operating Expenses	3.50%	262,200	271,377	280,875	290,706	300,881	311,411	322,311	333,592	345,267	357,352	369,859	382,804	396,202	410,069	424,422
Net Annual Operating Income		103,717	103,688	103,567	103,347	103,024	102,590	102,041	101,369	100,567	99,629	98,546	97,311	95,916	94,352	92,610
Less Debt Service		66,202	66,202	66,202	66,202	66,202	66,202	66,202	66,202	66,202	66,202	66,202	66,202	66,202	66,202	66,202
MHP Debt service		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less Operating Reserve		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less Replacement Reserves		18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400
Cash Flow		19,115	19,086	18,965	18,745	18,422	17,988	17,439	16,767	15,965	15,027	13,944	12,709	11,314	9,750	8,008
Asset Management Fee		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Deferred Developer Fee		14,115	14,086	13,965	13,745	13,422	12,988	12,439	11,767	10,965	10,027	8,944	7,709			
Partnership Management Fee		0	0	0	0	0	0	0	0	0	0	0	0	6,314	4,750	3,008
Net Cash Flow		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

CASH FLOW OVER TIME

	Year	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
Residential income	2.50%	552,253	566,060	580,211	594,717	609,584	624,824	640,445	656,456	672,867	689,689	706,931	724,604	742,720	761,288	780,320
Laundry/misc income		5,596	5,736	5,880	6,027	6,177	6,332	6,490	6,652	6,818	6,989	7,164	7,343	7,526	7,714	7,907
Less Vacancy (5%)		-27,892	-28,590	-29,305	-30,037	-30,788	-31,558	-32,347	-33,155	-33,984	-34,834	-35,705	-36,597	-37,512	-38,450	-39,411
Effective Gross Income (EGI)		529,957	543,206	556,786	570,706	584,974	599,598	614,588	629,953	645,701	661,844	678,390	695,350	712,734	730,552	748,816
Less Annual Operating Expenses	3.50%	439,276	454,651	470,564	487,034	504,080	521,723	539,983	558,882	578,443	598,689	619,643	641,330	663,777	687,009	711,054
Net Annual Operating Income		90,681	88,555	86,222	83,672	80,894	77,875	74,605	71,070	67,258	63,155	58,747	54,019	48,957	43,543	37,761
Less Debt Service		66,202	66,202	66,202	66,202	66,202										
MHP Debt service		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less Operating Reserve		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less Replacement Reserves		18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400	18,400
Cash Flow		6,079	3,953	1,620	-930	-3,708	59,475	56,205	52,670	48,858	44,755	40,347	35,619	30,557	25,143	19,361

CALCULATION OF CREDIT AMOUNT	Cost calculations		Contra Costa	
		basis limits		
	44 1br	**197,634**	8,695,896	
	2 2br	**238,400**	476,800	
	46 TOTAL		9,172,696	
Applicable cost limts			9,172,696	
Plus Prevailing Wage Boost	20%		1,834,539	
Plus Energy Efficiency Boost	4%		0	
Plus Structured Parking	7%		642,089	
Plus Photovoltaic Boost			0	lesser of 5% or actual cost
Plus Elevator Boost	10%		917,270	
Plus Impact Fees			1,188,811	
Total Basis Limit			**13,755,405**	
Project Basis		**15,183,988**		
Eligible basis for calculating credits			**13,755,405**	

Basis for calculating credit	13,755,405		
Less voluntary basis reduction	1,134,068		
Eligible Basis	12,621,337		
High cost factor	16,407,737	**130.00%**	**DDA for 2009**
Federal Credit Amount	1,476,696	**9.00%**	
State Credit Amount	0	0.00%	
			TCAC factor
Equity from Federal Credit	10,735,214	**0.7270¢**	0.7200
Equity from State Credit	0	0.600	
Total Equity	10,735,214		
less syndication costs	103,000		
Net Equity	10,632,214		

TCAC Scoring				
Tiebreaker				
Committed Funds	7,198,000			
Total Development Cost less land and dev fee and offsites	14,381,759			
	50.05%			
Affordability Points		%	units	
	15 % 30% AMI	10.87%	5	higher affordability than we'll use in a
	20 % 40% AMI	32.61%	15	put 5 here for app
	25 % 50% AMI	56.52%	26	
	60		46	
Leverage	31%		29	

EDEN HOUSING

www.edenhousing.org

22645 Grand Street
Hayward, CA 94541

510.582.1460 Phone
510.582.6523 Fax

November 17, 2008

Niroop Srivatsa
City of Lafayette
3675 Mt. Diablo Boulevard
Suite 210
Lafayette, CA 94549

Re: Lafayette Senior Housing Development
Development Fee Waiver Request

Dear Ms. Srivatsa,

Eden Housing is extremely excited about the strides made towards achieving our mutual goal of developing an affordable senior rental project in Lafayette's downtown. We have worked hard to incorporate all of the valuable comments and recommendations from the City's Planning Commission, Design Review Commission, Circulation Committee, and Downtown Street Improvement Committee and believe we have designed a development that will be a dynamic addition to the Lafayette Community.

Unfortunately, we are not immune from the difficulties of the financial crisis. According to our financial consultant and discussions with potential tax credit investors, the amount that investors are willing to offer has dropped from the originally estimated 94 cents to 85 cents to the dollar. This has resulted in an estimated contribution of $6,186,246 instead of the estimated $7,113,287. We should be able to apply for additional funding from the HCD Infill Grant program and two green building programs to account for a substantial portion of the shortfall.

The City of Lafayette could greatly aide our ability to reduce the funding gap by waiving the following development impact fees that would otherwise be charged to a new development.

1) Parkland Fee	$3,785/ unit	x 46 units	=$174,110
2) Park Facilities Fee	$3,857/ unit	x 46 units	=$177,422
3) Park Fees Program Admin Fee	1% of Parkland and Park Fees		=$3,515.32
4) Lamorinda Transportation Fee	$3,187/ unit	x 46 units	=$146,602
5) Walkway Fee	$50/ unit	x 46 units	=$2,300
Total fee waiver request			$503,949.32

We truly appreciate the commitment made by the City of Lafayette to insure the success of the Lafayette Senior Housing development and hope the city will be able to approve this request.

Sincerely,

Woody Karp
Senior Project Developer

Eden Housing does not discriminate based on race, color, religion, sex, handicap, familial status, national origin, or any other arbitrary basis. TDD/TTY 1.800.735.2922

Attachment # 3